

Message Text

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC PRIORITY 2605

INFO AMCONSUL KARACHI

AMCONSUL LAHORE

AMEMBASSY NEW DELHI

AMEMBASSY MANILA

AMEMBASSY PARIS

AMEMBASSY TEHRAN

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MANILA FOR USADB

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E.O. 11652: N/A

TAGS: ECON, PK

SUBJECT: PAKISTAN ECONOMIC SURVEY: 1976-77

REF: (A) ISLAMABAD 6122, (B) ISLAMABAD 6301, (C) ISLAMABAD 5983,

1. SUMMARY: IMMEDIATELY PRIOR TO THE NEW BUDGET, THE GOP RELEASED ITS FY 76/77 ANNUAL ECONOMIC SURVEY. A LONG, PROFESSIONALLY COMP-ETENT, AND GENERALLY FRANK DOCUMENT, IT PRESENTED A STRAIGHT-FORWARD PICTURE OF AN ECONOMY WHICH GREW ONLY 1/2 PERCENT IN REAL TERMS AND CONSEQUENTLY SUFFERED NEARLY A 2 PERCENT DROP IN PER CAPITA INCOME. AGRICULTURE LED THE ECONOMY IN GROWTH DESPITE A DISASTROUS COTTON CROP, BUT EVEN THE 2.2 PERCENT INCREASE

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RECORDED IN AGRICULTURE DID NOT KEEP PACE WITH PAKISTAN'S ESTIMATED 3 PERCENT POPULATION GROWTH, THE GROWTH IN WHEAT, PARTICULARLY, IS ASCRIBED TO THE AGRICULTURAL POLICY CHANGES AND INCREASED AGRICULTURAL INPUTS DISTRIBUTION F THE LAST FEW YEARS, ASSOCIATED WITH AID ASSISTED AGRICULTURAL INPUTS PROJECT. LARGE SCALE INDUSTRIAL OUTPOUT FELL FOR THE THIRD SUCCESSIVE YEAR. ALTHOUGH THE SURVEY DOES NOT INCLUDE ESTIMATED FIGURES ON

INVESTMENT, IT SUGGESTS THAT PRIVATE INVESTMENT FELL AND PUBLIC SECTOR INVESTMENT DID NOT CONTINUE ITS RAPID GROWTH FROM THE PAST SEVERAL YEARS. THE SURVEY DOES NOT DISCUSS UNEMPLOYMENT AS A MAJOR PROBLEM, LARGELY BECAUSE OF THE IMPACT OF EMIGRATION TO THE GULF. THE SURVEY CITES A 12 PERCENT INFLATION RATE, WHICH IT ATTRIBUTES ESSENTIALLY TO SUPPLY PROBLEMS. WE EXPECT INFLATION TO BE 15 PERCENT OR MORE FOR THE YEAR. THE SURVEY FRANKLY DISCUSSES PAKISTAN'S SERIOUS BALANCE OF PAYMENTS PROBLEM, ALTHOUGH WE BELIEVE THAT IT OVERSTATES BOTH AID RECEIPTS AND THE TRADE DEFICIT.

2. AS IN THE PAST, AND DESPITE SOME ESTIMATES WHICH ARE AT VARIANCE WITH OUR OWN, WE BELIEVE THAT THE SURVEY PRESENTS A GOOD PICTURE OF THE PERFORMANCE OF PAKISTAN'S ECONOMY DURING THE PAST YEAR. ITS WEAKEST POINT, PREDICTABLY, IS ITS DISCUSSION OF THE SOCIAL ASPECTS OF PAKISTAN'S DEVELOPMENT EFFORT. THE CHAPTERS DEALING WITH SOCIO-ECONOMIC REFORMS AND WITH POPULATION DISCUSS THE SUBJECTS IN RATHER MECHANISTIC TERMS. THIS IS PERHAPS INEVITABLE IN A DOCUMENT COMPILED IN THE FINANCE MINISTRY. ESPECIALLY GIVEN THE SHAKY DATA BASE ON ISSUES LIKE RURAL DEVELOPMENT AND INCOME DISTRIBUTION. END SUMMARY

3. THE ANNUAL ECONOMIC SURVEY, PREPARED EACH YEAR BY THE ECONOMIC ADVISOR'S WING OF THE MINISTRY OF FINANCE, WAS RELEASED JUST PRIOR TO THE BUDGET. MORE THAN 264 PAGES OF TEXT AND AN ADDITIONAL 191 PAGES OF APPENDED TABLES, THE SURVEY IS A MINE LIMITED OFFICIAL USE

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OF CURRENT INFORMATION AND A CLEAR EXPOSITION OF THE ECONOMY AS PERCEIVED BY THE FINANCE MINISTRY'S TECHNICIANS. LIKE THE FINANCE MINISTER'S BUDGET SPEECH AND IMMEDIATELY PRIOR PUBLIC STATEMENTS, IT IS STRAIGHT-FORWARD IN PRESENTING A PICTURE OF AN ECONOMY THAT THIS YEAR HAS NOT BEEN SUCCESSFUL IN KEEPING THE

GROWTH OF ITS OUTPUT AHEAD OF THE GROWTH OF ITS POPULATION. BUT UNILKE THE SPEECHES AND PRESS STATEMENT, THE SURVEY DOESN'T STRESS THE ECONOMIC IMPACT OF POST ELECTION POLITICAL AGITATION. INSTEAD IT DRYLY STATES QUOTE AS THE YEAR ADVANCED THE POLITICAL CONDITIONS FURTHER CLOUDED THE ECONOMIC HORIZON UNQUOTE.

4. GNP GROWTH: OVERALL INCOME (GROSS NATIONAL PROBCT AT CONSTANT FALWOR COST) IN PAKISTAN'S FISCAL YEAR 1976-77 (JULY 1 TO JUNE 30) IS NOW OFFICIALLY ESTIMATED TO HAVE GROWN ONLY 1.2 PERCENT, AND ESTIMATED REAL PER CAPITA OUTPUT WENT DOWN AT ABOUT 1.8 PERCENT TO ABOUT \$169 EQUIVALENT IN 1976 PRICES. GIVEN THE POOR DATA BASE AND ESTIMATION PROCEDURES, THIS SHOULD NOT BE TAKEN TOO LITERALLY, BUT IT IS CLEAR THAT THIS WAS NOT A GOOD YEAR. THE SURVEY'S SUMMARY CLOSES: "THE STATE OF NEAR STAGNATION HAS TO END...IT WILL REQUIRE A LOT OF HARD WORK AND SWEAT".

5. IN CONTRAST TO PREVIOUS YEARS, NOT A SINGLE SECTOR OF THE ECONOMY GREW AS FAST AS THE POPULATION. ALSO IN CONTRAST, HOWEVER, AGRICULTURE - THE MAJOR GOODS PRODUCING SECTOR AND SOURCE OF EMPLOYMENT FOR OVER HALF THE POPULATION - PERFORMED BETTER THAN THE REST OF THE ECONOMY, DESPITE SEVERE FLOODS, BADLY TIMED RAINS AND A SEVERE PEST PROBLEM. SUGAR PRODUCTION LED THE WAY. ACCORDING TO THE SURVEY WHEAT PRODUCTION WENT UP BY 5.2 PERCENT, TO 9 MILLION TONS. THERE CONTINUE TO BE DIFFERENT VIEWS WITH-IN THIS MISSION AND IN THE GOP AS TO WHETHER THE WHEAT CROP REALLY DOES EXCEED LAST YEAR'S RECORD LEVEL; OUR CROP ESTIMATES RANGE FROM 8.7 TO 9 MILLION TONS. RICE PRODUCTION ALSO INCREASED

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SLIGHTLY, SO THAT ALTHOUGH COTTON, A MAJOR CASH CROP, WAS A DISASTER WITH PRODUCTION REACHING ONLY TWO-THIRDS OF ITS FIVE YEAR AVERAGE, THE AGRICULTURAL SECTOR OVERALL REGISTERED A 2.21, PERCENT INCREASE. THE SURVEY POINTS OUT HIGHER USE OF CHEMICAL FERTILIZERS, MORE IMPROVED SEEDS, AND WIDER USE OF BETTER AGRICULTURAL PRACTICES AS CAUSES FOR THE INCREASE. THE FINANCE MINISTER IN HIS SPEECH (REF A) HAD ALSO ARGUED THAT A BETTER

PRICE SUPPORT SYSTEM AND THE END OF RESTRICTIONS ON THE MARKET IN FERTILIZER AND WHEAT ALSO CONTRIBUTED TO OUTPUT GROWTH. (THSSE POLICY CHANGES HAVE ALL BEEN MAJOR COMPONENTS OF THE AID ASSISTED AGRICULTURAL INPUT PROJECT ACTIVITY.)

6. TRADE, PUBLIC ADMINISTRATION AND DEFENSE, AND A VARIETY OF LIMITED OFFICIAL USE

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MISCELLANEOUS SERVICES ALL REGISTERED NOMINAL INCREASES IN OUTPUT. HOWEVER, THREE IMPORTANT SECTORS REGISTERED DECLINES. THE LARGEST AND MOST IMPORTANT OF THESE SECTORS WAS MANUFACTURING. LARGE SCALE MANUFACTURING OUTPUT FELL BY 2 PERCENT. REVISED FIGURES PUBLISHED IN THE SURVEY INDICATE THAT THIS IS THE THIRD SUCCESSIVE YEAR IN WHICH THE OUTPUT OF LARGE-SCALE INDUSTRY HAS DECLINED IN REAL TERMS, A SITUATION WHICH MUST WORRY PAKISTANI POLICYMAKERS. THE MAIN FACTOR HERE WAS THE CONTINUING DETERIORATION IN THE PERFORMANCE OF THE COTTON TEXTILE INDUSTRY. YARN AND CLOTH OUTPUT, WHICH TOGETHER ACCOUNT FOR ALMOST 27 PERCENT OF INDUSTRIAL PRODUCTION, FELL BY 19.5 AND 16.5 PERCENT RESPECTIVELY, MORE THAN COMPENSATING FOR MORE MODEST INCREASES IN OUTPUT IN MOST OTHER INDUSTRIAL SECTORS. THE SURVEY SUGGESTS THAT THE DISTURBED POLITICAL CONDITIONS SINCE MARCH CONTRIBUTED TO THIS SITUATION. HOWEVER, THE STATISTICS RELEASED COVER ONLY THE PERIOD THROUGH MARCH, WHICH TENDS TO SUPPORT OUR JUDGEMENT THAT A FAR MORE IMPORTANT FACTOR IS THE POOR FINANCIAL CONDITION OF THE TEXTILE INDUSTRY AFTER TWO YEARS OF DEPRESSED EXPORT MARKETS AND TWO SUCCESSIVE POOR COTTON CROPS. AS USUAL THE ESTIMATE OF SMALL INDUSTRY GROWTH WAS SIMPLY SET EQUAL TO THE POPULATION GROWTH RATE.

7. THE MOST SURPRISING DECLINE IN OUTPUT WAS THE 2.3 PERCENT DROP IN THE CONSTRUCTION SECTOR. CONSTRUCTION ACTIVITY HAD INCREASED BY BETWEEN 10 AND 19 PERCENT IN REAL TERMS DURING THE THREE PRECEDING YEARS. IT IS POSSIBLE THAT PART OF THIS DROP MAY REFLECT THE IMPERFECT STATISTICAL TECHNIQUES USED TO MEASURE CONSTRUCTION ACTIVITY, CONTINUING CEMENT SHORTAGES, OR BOTH. BUT ALSO THIS IS ONE AREA IN WHICH THE DECREASE MAY WELL HAVE BEEN RELATED TO POLITICAL DISTURBANCES.

8. INVESTMENT: THE SURVEY DOES NOT INCLUDE ANY ESTIMATES FOR INVESTMENT DURING FY 1977, BUT WHAT GENERAL INDICATORS IT LIMITED OFFICIAL USE

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PROVIDES WOULD SUGGEST THAT THE SUBSTANTIAL INCREASES OF THE PREVIOUS TWO YEARS (14.8 AND 20.9 PERCENT IN REAL TERMS) WERE NOT REPLICATED IN FY 76/77. DISBURSEMENTS BY THE TWO DEVELOPMENT

BANKS FOR THE FIRST NINE MONTHS OF THE FISCAL YEAR, ACCORDING TO THE SURVEY, WERE SLIGHTLY OVER ONE-THIRD OF THEIR LEVEL FOR THE CORRESPONDING PERIOD FY 1975/76; SANCTIONS (AUTHORIZATIONS) FOR GENERAL INVESTMENT AND FOR FOREIGN INVESTMENT BY THE DEPARTMENT OF INVESTMENT PROMOTION AND SUPPLIES ARE ESTIMATED AT 37 AND 24 PERCENT RESPECTIVELY OF THEIR FY 76/76 LEVELS. THESE FIGURES SUGGEST A PRECIPITOUS DROP IN PRIVATE INDUSTRIAL INVESTMENT, WHICH HAD INCREASED SLIGHTLY IN REAL TERMS IN EACH OF THE PREVIOUS TWO YEARS. PUBLIC SECTOR INVESTMENT, WHICH IN FY 1975/76 ACCOUNTED FOR SOME 70 PERCENT OF TOTAL INVESTMENT IN THE COUNTRY AND WHICH HAD BEEN THE SOURCE OF THE TREMENDOUS GROWTH IN OVERALL INVESTMENT IN RECENT YEARS, COULD STILL HAVE REGISTERED SOME INCREASE IN REAL TERMS OVER LAST YEAR, BUT WE BELIEVE THAT THIS IS LIKELY TO BE WELL SHORT OF THE 20 PERCENT-PLUS TARGET INCREASE.

9. IT IS HARD TO ASSESS THE SIGNIFICANCE OF THIS APPARENT SLOWDOWN IN INVESTMENT GROWTH. A STRONG CASE CAN BE MADE THAT THE MOST IMPORTANT THING ABOUT PUBLIC SECTOR INVESTMENT IN PAKISTAN IS NOT THE AGGREGATE AMOUNT BUT ECONOMIC SOUNDNESS OF THE PROJECT BEING UNDERTAKEN. VIEWED IN THESE TERMS A SLOWDOWN IN INVESTMENT IS NOT NECESSARILY IN ITSELF CAUSE FOR CONCERN.

10. THE APPARENT DROP IN PRIVATE INVESTMENT, WE ASSUME, REFLECTS UNEASINESS OVER THE GOVERNMENT'S INTENTIONS TOWARD PRIVATE BUSINESS AND RELUCTANCE TO COMMIT FUNDS UNTIL PAKISTAN'S POLITICAL TROUBLES HAVE STRAIGHTENED OUT. THE SURVEY, INDEED, CITES THIS LAST REASON AS THE MAIN FACTOR BEHIND THE DROP IN FOREIGN INVESTMENT SANCTIONS.

11. MONEY AND PRICES: IN THE SURVEY, THE GOP TAKES CREDIT FOR HAVING RESTRAINED INFLATION TO A LEVEL PROJECTED AT ABOUT 12 PERCENT FOR THE YEAR. UNFORTUNATELY, THE MOST RECENT DATA WE LIMITED OFFICIAL USE

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HAVE SEEN (END OF APRIL) SUGGEST THAT THIS MAY HAVE BEEN PREMATURE, AND THAT INFLATION FOR THE FULL FISCAL YEAR 1976/77 IS LIKELY TO BE ABOUT 15 PERCENT. PRIVATELY, A NUMBER OF GOP OFFICIAL ECONOMISTS SHARE THIS ESTIMATE.

12. THE SURVEY TREATS INFLATION AS PRIMARILY A SUPPLY PROBLEM, AND MENTIONS PROMINENTLY AMONG INFLATION CONTROL MEASURES STEPS TO INCREASE DOMESTIC SUPPLIES FROM PRODUCTION AND IMPORTS, TO DIRECTLY CONTROL PRICES, AND TO MOVE BANK CREDIT INTO PRODUCTIVE USES AND AWAY FROM "SPECULATION" (OFTEN A CODE-WORD FOR ANYTHING INVOLVING "MIDDLE MEN"). WITH OUTPUT IN THE MAJOR GOODS PRODUCING AREAS LAGGING BEHIND POPULATION GROWTH AND CONSUMER GOODS IMPORTS GROWING MORE SLOWLY THAN THE AVERAGE, THERE

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IS CONSIDERABLE JUSTIFICATION FOR THIS EMPHASIS ON THE
SUPPLY SIDE, ALTHOUGH WE WOULD HAVE WELCOMED GREATER
ATTENTION TO SUCH RELATED AREAS AS PRODUCTIVITY INCREASES,
RESTRAINT OF COSTS AND MORE EFFICIENT DISTRIBUTION PRO-
CESSES.

13. RAPID EXPANSION IN THE MONEY SUPPLY HAS ALSO TENDED
TO FACILITATE INFLATION. THE SURVEY ACKNOWLEDGES THAT
MONETARY EXPANSION HAD EXCEEDED THE "SAFE LEVEL" DURING
FY 1977, THOUGH WE NOTE THAT IT WAS APPARENTLY MORE
MODERATE IN FY 76. (IT WAS ABOUT 19PERCENT FOR THE FIRST 11
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MONTHS OF THIS FISCAL YEAR, COMPARED WITH 24PERCENT IN FY 76).

GOVERNMENT BORROWING TO FINANCE THE DEFICIT WAS A MAJOR FACTOR IN THIS EXPANSION-THE PROJECTED FY 1976/77 BUDGET DEFICIT IS EQUAL TO NEARLY 4 PERCENT OF MONEY SUPPLY. BANK CREDIT ALSO EXPANDED AS A RESULT OF INCREASED NEED TO BORROW BY PRIVATE AND GOVERNMENT ENTERPRISES DEALING IN COTTON TEXTILES, AND RICE ON ACCOUNT OF LOW TURNOVER AND PROFITS.

14. THE SURVEY DOES NOT DISCUSS THE RECENTLY ANNOUNCED CHANGES IN INTEREST RATES AND CREDIT CEILINGS (SEE REFS B AND C). AS WE REPORTED EARLIER, THESE MEASURES WILL NOT SUFFICE TO RAISE INTEREST RATES ABOVE THE LIKELY INFLATION RATE, NOR WILL THEY SIGNIFICANTLY RESTRAIN BANK CREDIT EXPANSION. THE ABSENCE OF REAL POSITIVE INTEREST RATES IN THE BANKING SECTOR FURTHER-MORE WILL CONTINUE TO BE A HANDICAP TO THE DEVELOPMENT OF A SOLIDLY BASED RURAL CREDIT SYSTEM, SO BADLY NEEDED FOR RURAL DEVELOPMENT.

15. BALANCE OF PAYMENTS: FOREIGN TRADE AND THE BALANCE OF PAYMENTS WERE HARD HIT BY THE POOR COTTON CROP. (COTTON AND COTTON PRODUCTS HAVE AVERAGED ABOUT 39PERCENT OF EXPORT EARNINGS IN RECENT YEARS.) THE SURVEY ESTIMATES 1976/77 EXPORTS AT \$1150 MILLION, IMPORTS AT \$2530 MILLION, LEAVING A TRADE DEFICIT OF \$1380 MILLION. WE ESTIMATE THE TRADE DEFICIT AT SLIGHTLY LESS--ABOUT \$1150 MILLION, WITH BOTH EXPORTS AND IMPORTS SOMEWHAT LOWER (\$1050 AND \$2200 MILLION RESPECTIVELY). REMITTANCES FROM PAKISTANIS ABROAD ARE STILL GROWING PLUS (\$450 TO 500 MILLION) FOR BOTH INTERNATIONAL PAYMENTS AND NATIONAL INCOME. JOBS ABROAD HAVE A PERVASIVE IMPACT ON PAKISTAN'S ECONOMY, WITH COUNTLESS FAMILIES HAVING LIMITED OFFICIAL USE

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ONE OR MORE MEMBERS WORKING OVERSEAS AND SENDING MONEY HOME. BASED ON FIGURES FOR 9 MONTHS OF THE FISCAL YEAR, NO SHARP SHIFTS IN THE DIRECTIONS OF PAKISTAN'S TRADE OCCURRED. THE U.S. SHARE IN BOTH THE EXPORT AND IMPORT TRADE DROPPED SOMEWHAT, LARGELY OWING TO REDUCED PAKISTANI WHEAT IMPORTS. THIS REDUCTION IN WHEAT IMPORTS ALSO ACCOUNTS FOR THE REDUCED IMPORTANCE OF CONSUMER GOODS IN OVERALL IMPORTS.

16. THE SURVEY ESTIMATES PAKISTAN'S FOREIGN AID RECEIPTS FOR FY 1976/77 AT \$1443.1 MILLION. THIS IS SUBSTANTIALLY HIGHER THAN THE ESTIMATE CITED BY FINANCE MINISTER PIRZADA IN HIS BUDGET SPEECH (\$1201 MILLION). BOTH FIGURES ARE ALMOST CERTAINLY TOO HIGH. THE SURVEY TOTAL FOR OPEC-SOURCE AID (\$609 MILLION) APPEARS TO INCLUDE THE \$300 MILLION COMMERCIAL LOAN GUARANTEED BY IRAN

WHICH THE GOP HAD ORIGINALLY HOPED TO SECURE THIS YEAR. THE TOTAL GIVEN FOR AID DISBURSEMENTS FROM THE CONSORTIUM, \$724 MILLION, SIMILARLY SEEMS TO US TO BE TOO HIGH. UNFORTUNATELY, THE SURVEY DOES NOT PROVIDE ENOUGH DETAIL FOR US TO IDENTIFY THE DISCREPANCIES, BUT WE EXPECT THE TOTAL OF AID RECEIPTS FOR THE YEAR TO BE CLOSER TO \$1 BILLION.

17. THERE ARE ARE SEVERAL ADDITIONAL CHAPTERS, DISCUSSING IN A MIXTURE OF HISTORICAL NARRATIVE AND EXHORTATION THE FISCAL YEAR 1976/77 PERFORMANCE AND NEXT YEAR'S PLANS. NOTABLE ARE THOSE ON ENERGY AND POPULATION PLANNING. THE FORMER INCLUDES A BROAD SURVEY OF A WIDE RANGE OF ALTERNATIVES, BUT UNEXPECTEDLY, CONTAINS NO REPEAT NO SPECIAL PLEA FOR ATOMIC ENERGY OR THE CONTENTIOUS REPROCESSING PLANT. THE POPULATION CHAPTER IS A STRAIGHTFORWARD PRESENTATION OF FACTS, STRESSING THE IMPORTANCE OF THE PROBLEM, CLAIMING SOME PROGRESS IN CHANGING ATTITUDES AND DEPLORING THE INABILITY TO ACHIEVE A REAL REDUCTION IN THE POPULATION GROWTH RATE. (WE AGREE WITH LIMITED OFFICIAL USE

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BOTH POINTS). THE CHAPTER POINTS OUT THE POPULATION PROGRAM IS BEING REDESIGNED. FINALLY, IT MENTIONS THE PUBLICATION OF THE PAKISTAN FERTILITY SURVEY, BASED ON A NATIONAL SAMPLE AND PROUDLY STATING THAT PAKISTAN WAS THE FIRST COUNTRY PARTICIPATING IN THE WORLD FERTILITY SURVEY TO RELEASE ITS NATIONAL SURVEY REPORT.

18. ALTHOUGH A CONCERN FOR MORE EQUITABLE INCOME DISTRIBUTION AND IMPROVEMENT IN THE REAL QUALITY OF LIFE OF THE POOR (IN PAKISTAN A TRULY VAST MAJORITY) DOES PERVADE THE DOCUMENT, NO OPERATIONAL MEASURE OF THE IMPACT OF STEPS TAKEN IN THIS DIRECTION IS PRESENTED, REFLECTING THE LACK OF GOOD DATA BUT HERHAPS ALSO THE ABSENCE OF A SOLID THEORETICAL FRAMEWORK. A SEPARATE CHAPTER (ONE OF EIGHTEEN) DEALS WITH "SOCIO-ECONOMIC REFORMS", BUT IT IS A RECITAL OF ADMINISTRATIVE MEASURES, CHANGES IN REGULATIONS, LAND REFORM MEASURES AND NATIONALIZATION STEPS TAKEN SINCE 1972, PLUS REITERATION OF THE PHYSICAL TARGETS IN THIS AREA. THE DISCUSSION OF MANPOWER PLANNING, UNLIKE THOSE IN EARLIER YEARS, ACKNOWLEDGES THE IMPORTANCE OF EMIGRATION TO THE PERSIAN GULF IN HOLDING DOWN UNEMPLOYMENT.

19. MULTIPLE COPIES OF THE PAKISTAN ECONOMIC SURVEY 1976-1977 ARE BEING SENT TO THE AID AND DEPARTMENT DESKS. HUMMEL

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